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ECONOMIC TRENDS

MID-YEAR REVIEW, 1981

1. Introduction

This issue of Economic Trends consists of an analysis of the P.E.I. economy in the first half of 1981. One must bear in mind that complete data for this period are not available and thus the statistics are subject to revision. Nevertheless, with judgement it is possible to identify the general progress of the economy in the first half of this year.

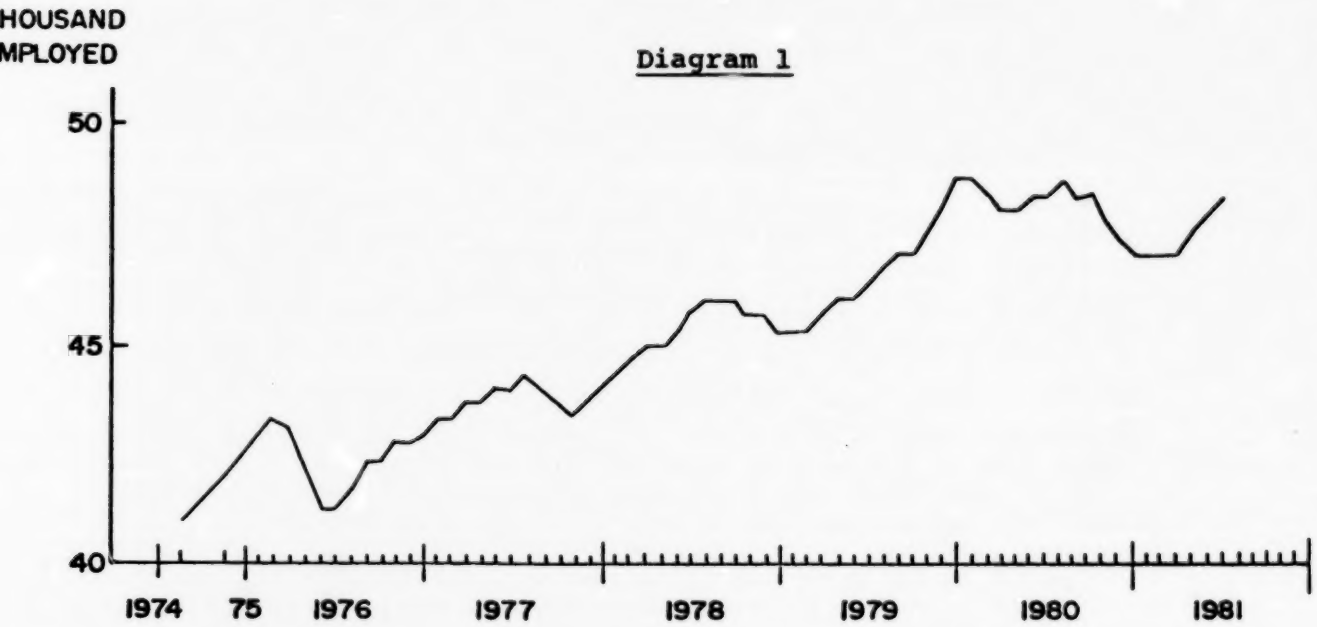
2. Summary of Economy in First Half of 1981

With the significant exception of agriculture and fishing, most sectors of the P.E.I. economy continued to suffer from the decline that began during 1980. Exceptionally high interest rates and accelerating energy costs appear to have stifled any potential recovery. Employment levels fell on a seasonally adjusted basis from August 1980 to April of this year and Diagram 1 traces monthly employment totals for the Province from 1976 to the most recent month of 1981. Average monthly employment in the first half of 1981 was 47,500. The unemployment rate also worsened in this period, averaging 11.1% in the first 7 months of 1981, which compares with 10.8% in 1980. Increased agricultural employment partially offset declines in other industries. The manufacturing sector, for which employment had held up well during 1980, slipped significantly in the first half of the year. Total employment improved in May and June on the basis of improved figures for public administration and retail trade.

The weak performance of the P.E.I. economy in the first half of 1981 was accompanied by considerable net outmigration and a consequent slow population growth. The Province has now suffered net outmigration since last July and the latest population estimate for June 1, 1981 is 124,300, exactly the same level as at June 1, 1980.

The first half of 1981 witnessed unprecedented increases in consumer prices. The Consumer Price Index for Charlottetown-Summerside increased on average by 13.7% between January and July on an annual basis. This compares with 10.4% during 1980 and 12.4% for Canada January to July. Average weekly wages and salaries per worker increased on average by 8.6% during the first 5 months of 1981 on P.E.I. and in combination

Diagram 1



AVERAGE MONTHLY EMPLOYMENT, P.E.I., BY YEAR 1974-1975
BY MONTH 1976-1981 (3 MONTH MOVING AVERAGES) SEASONALLY ADJUSTED

SOURCE: STATISTICS CANADA 71-001

with the poor employment picture it is not surprising to find total labour income increasing by only 8.6% as well. Thus the real purchasing power of employed persons in general has deteriorated considerably during the first half of 1981. In combination with record interest rates it is apparent that the household sector has endured a very stressful economic period.

3. Farming and Fishing

Unlike the rest of the economy the agricultural sector has been in a very strong position during the first half of 1981. Farm product prices, particularly for potatoes, have generally been very good this year. Table 1 displays some pertinent price statistics for the month of May 1981.

Table 1

Industry Selling Price Indexes, 1971=100

	May 1981	% Increase May 1980 to May 1981
Canada - Pork	212.2	+21.8%
Canada - Beef	246.0	+5.7%
Canada - Dairy Products	283.7	+13.4%
Canada - All Manufacturing	269.6	+11.2%
P.E.I. - Crops	720.1	+239.5%
Canada - Consumer Prices	233.2	+12.3%

The P.E.I. crop index, at 720.1 (1971=100), is easily an all-time record and can compare with 212.1 a year ago. Potato prices for the 1980 crop have not only been high throughout but have actually increased as the months have gone by. Using the general manufacturing industry price index as a standard, one can also see from Table 1 that the price of dairy products has performed well. Pork prices have improved in 1981 by over 20% although the level of the index is still fairly low. The major exception to these improved farm product prices is in the beef sector which has seen little improvement.

The prices for potatoes have been so extraordinary as to merit further discussion. They have caused potato sales from the 1980 crop to exceed $80 million by June and we still do not know the full value of the crop, because all the figures are not yet in. By comparison, the value of the 1979 crop was $31 million and the previous all-time record for the Province, set in 1975, was $55.5 million. Consequently the value of potato sales between January and May 1981 was 224.5% higher than in this period last year. Total farm cash receipts for this period in 1981 were 68% higher than in that period last year. With respect to dairy products the value of sales were up by 21.7% and hogs 16.7%, whereas cattle sales declined by 15.8%.

Preliminary figures on fish landings for the period January to June indicate that the lobster catch, which forms 85% of the value of P.E.I.'s fish catch, was virtually unchanged in 1981 at 9.4 million pounds. Major gains were made in the groundfish, pellagic and estuarial species, following the trends of recent years. Prices have generally been good and the fish sector overall posted a healthy 38% gain in the value of landings in the first half of 1981.

Employment in the primary industries of Prince Edward Island has revived in recent years, thus reversing a situation which had prevailed for decades. This improvement can be traced back to 1978 in which year monthly employment averaged 6,800. In 1980 it averaged 8,700, and during the first half of 1981 it has averaged 8,900 of which 6,400 is in agriculture.

4. Construction and Manufacturing

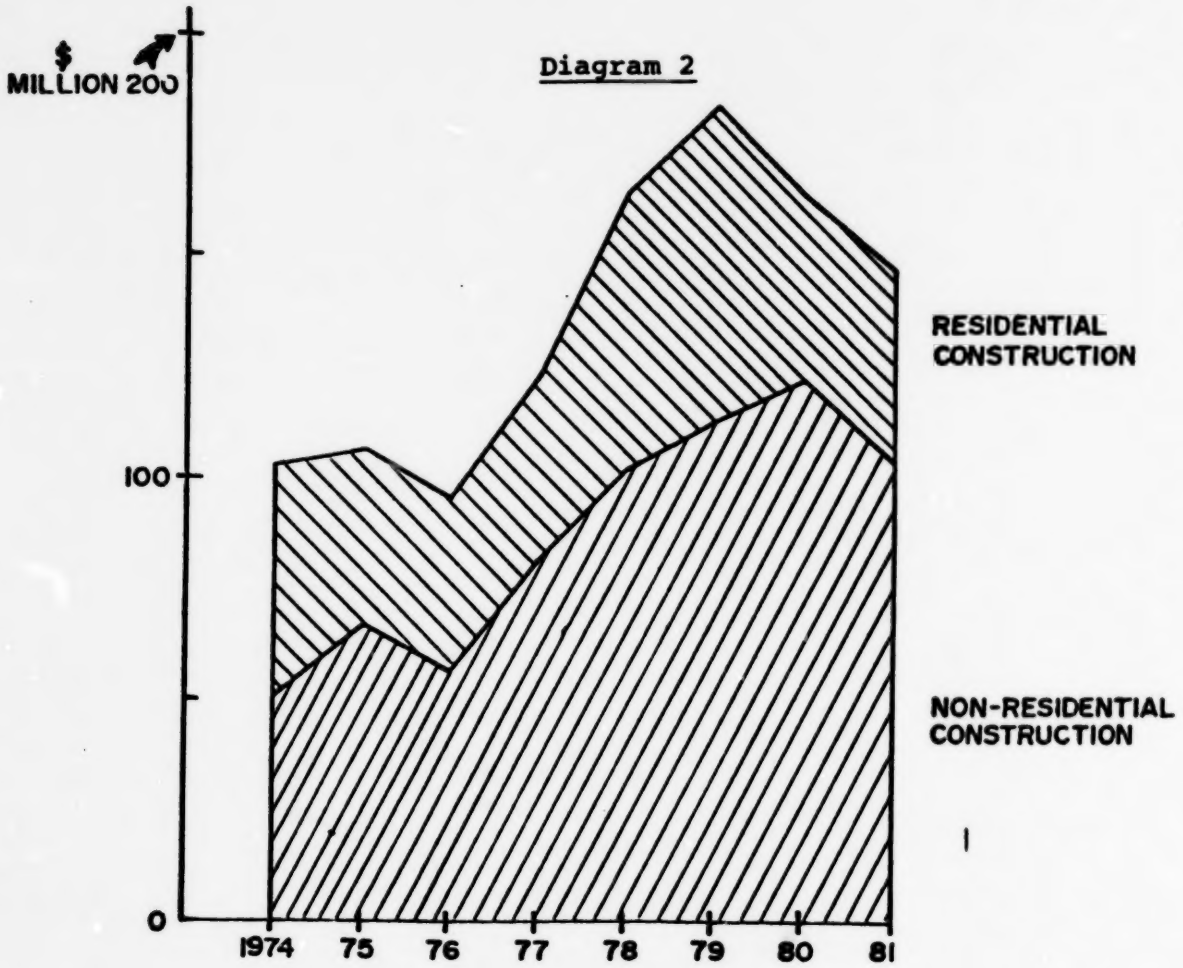
The value of construction expenditures on Prince Edward Island has been falling for two years, as is evident in Diagram 2. The statistics for 1981 are based on intentions and thus are subject to substantial revision. Residential construction fell from $70 million in 1979 to $43.7 million in 1980 and is expected to be $43.6 million this year. Housing starts in the first half of 1981 numbered only 148 which compares with 177 in 1980 and 492 in 1979. The total number of residential building permits issued between January and May 1981 was 26.8% below the number issued in this period in 1980. It is therefore apparent that the decline in residential construction which occurred in 1980 continued into the first half of 1981.

During 1980, nonresidential construction cushioned the impact of declining house construction but during 1981 nonresidential construction also declined. This is the result of a general slowdown in construction activity by all sectors, combined with a major decline in institutional construction activities, largely resulting from the fact that the Queen Elizabeth Hospital is nearing completion.

A lengthy construction strike occurred in the first half of 1981 bringing construction activity for a time to a virtual standstill. Activity is picking up during the second half of 1981 and will improve further in 1982 as construction of the Veterans Affairs Headquarters moves into a new stage. It appears that residential housing construction will remain at a low level for some time to come. The construction industry employs approximately 3,500 workers.

Some 80% of the manufacturing sector of Prince Edward Island is formed by food processors. Its importance can be measured by the fact that in 1979 value added in total manufacturing was $85.2 million which compares with about $70 million for our agricultural sector. Its contribution to the P.E.I. economy is often underestimated in view of

Diagram 2



VALUE OF NEW AND REPAIR CONSTRUCTION EXPENDITURES, P.E.I. 1974-1981

SOURCE: STATISTICS CAN. 61-206

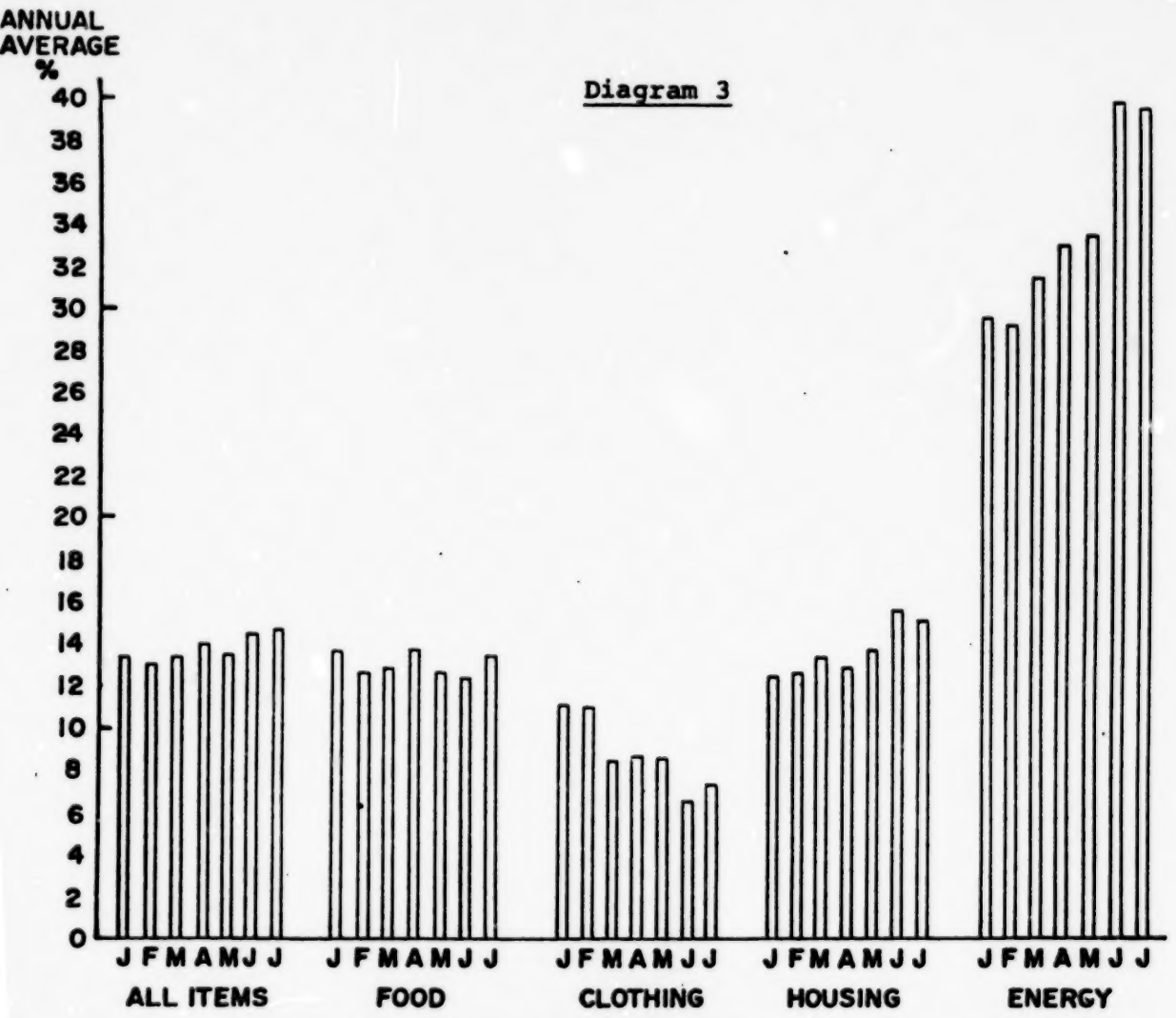
its extremely rapid growth during 1978 and 1979; for example, value added in manufacturing on P.E.I. in 1979 increased by 34%. However the sector distinctly slowed in 1980 largely as a result of a significant decline in the value of sales of fish products. Other aspects of the food and beverage group appear to have also suffered deteriorating economic circumstances in 1981 and employment for the manufacturing sector in total has fallen from 4,700 in the first half of 1980 to 4,100 in the first half of this year. Data on the non food and beverage sectors, which form the remaining 20% of P.E.I. manufacturing are unfortunately not available.

5. Retail Business and Consumer Prices

With labour income growing at 8.6% and prices increasing at 13.7%, one would expect an extremely poor situation facing the retail trade on Prince Edward Island. While the situation has not exactly been booming statistics do indicate that it was not as bad as one might have thought. Current dollar sales figures for the first half of 1981 were 11.4% higher than those a year ago. The number of new motor vehicles sold on P.E.I. had fallen by 17.8% in 1980 and it slipped by only a further 4.3% in the first half of 1981. Overall, the retail sector appears to have suffered a moderate decline. Yet employment statistics for this sector signify substantial improvement in June and July of this year. Monthly average employment for the first half of 1981 reached 8,000. The explanation for this somewhat surprising result lies in several factors; firstly, the impact of the significant expansion of farm incomes; secondly, items of personal income such as interest earnings have been increasing rapidly in this period; thirdly, the price increase of 13.7% is greatly influenced by energy components whereas other commodities have not generally increased as fast.

Diagram 3 displays annual changes in the consumer price index for Charlottetown-Summerside during the first seven months of 1981. It is interesting to note that a year previously when this graph was constructed the vertical axis measured 0%-20% but this year it goes to 40%. One can see the enormous increase in energy prices which occurred during the first half of 1981, as well as the significant inflation in food costs. If one were to subtract energy and food items from the consumer price index, the July rate of consumer price inflation would fall from 14.3% to 10.4%. This underlying rate of inflation was below that of Canada as a whole, which measured 10.7%. Thus increases in energy and food prices have raised the P.E.I. rate of inflation from something below the Canadian average to a level significantly higher than the Canadian average. It is P.E.I.'s dependence on oil and gasoline for heating and transportation that is the primary culprit.

Diagram 3



ANNUAL CHANGES IN CONSUMER PRICE INDEX CHARLOTTETOWN - SUMMERSIDE, 1981, BY SELECTED ITEMS
SOURCE: STATISTICS 62-001

In Table 2 the Canadian figures for July for selected items in the consumer price index are presented together with the P.E.I. energy component.

P.E.I.'s extreme dependence on fuel oil for house heating and gasoline for transportation automatically gives a high energy cost increase. During the first half of 1981 electricity cost increases on Prince Edward Island

Table 2

July 1980 - July 1981 Increase in Consumer Price Index, Selected Items

Fuel Oil and Other Liquid Fuels for House Heating	+50.6%
Domestic Gas	+29.8%
Electricity	+8.6%
Gasoline for Cars and Trucks	+41.2%
Energy in General	+33.9%
Public Transportation	+12.4%
P.E.I. Energy in General	+39.1%

have been kept below increased oil prices through expanded reliance on New Brunswick power, and in the first half of 1981, 84% of all electricity consumed on the Island was from that source.

6. Government and Other Services

Available data indicate that the public administration on Prince Edward Island slowly expanded during 1980 and continued to do so in 1981. Monthly employment by all levels of government measured approximately 4,500 in the first half of the year which compares with 4,250 in 1980. Although there are no details yet available one must assume that this increase is in part the result of the Veterans Affairs move, as well as the Census operation in May and June.

Approximately 30% of all employment on P.E.I. falls into a group commonly called commercial and noncommercial services. Approximately 75% of this large group is formed by noncommercial services such as schools, hospitals, religious organizations, welfare organizations, public service organizations, etc. Restraints on government expenditures and declining school enrolments have had an important influence on this sector. The other 25% consists of a diverse variety of activities including accommodation, restaurants, taverns, amusements, personal services, etc. These activities are to some extent influenced by the level of tourist visitation and preliminary data indicate modest growth in the number of tourists in 1981. However, employment in commercial and noncommercial services during the first half of 1981 declined,to average 13,600.

7. Other Sectors

The transportation, communication and utilities sector has been showing a declining trend for some years and this pattern is continuing in 1981. Employment by this group averages approximately 3,300. The finance, insurance and real estate sector employed approximately 1,300 during 1980 and this sector too shows declining figures during the first half of 1981.

8. Conclusion

Prince Edward Island has clearly entered a troubled economic period as is evidenced by a generally poor employment picture, and rapid escalation in the cost of living. Fortunately the agricultural sector has enjoyed a very prosperous period which has partially offset difficulties elsewhere. In looking to the future the big question is whether things are going to improve or worsen. On the negative side it is certain that energy prices will be raised further and this will put further pressure on the cost of living. The manufacturing sector appears to have stopped growing and its prospects for recovery are limited in this period of exceptionally high interest rates. It is highly unlikely that potato prices will be sustained at the levels experienced in 1981, which will remove some of the positive impact of high farm incomes in the months to come. On the positive side we can expect renewed vigour in nonresidential construction, as at least two major projects enter significant phases. In addition, the economy will be benefiting from the stimulus of DVA jobs on Prince Edward Island and there will be sustained expansion of DVA employment over the coming two years. In the short term, the impact of ever-increasing energy prices and persistently high interest rates provide little cause for optimism.

September 11, 1981